that year. Whereas the Category 3 expenses for individual RBOCs ranged from .03 percent to 13 percent of customer services expense, GTE's Category 3 expense was 28 percent.[78] Further, during the same year, GTE assigned an unusually low share of customer services expense to Category 1. Whereas that share ranged from 70 percent to 82 percent for individual RBOCs, GTE's share was only 47 percent.[79]

54. Further, GTE must explain why its share of user counts attributed to message toll users decreased by more than 9 percent from 1995 to 1996.[80] We seek this information because during this same period, the RBOCs decreased their share of user counts attributed to message toll users by 2.2 percent at most and Ameritech's reported share of user counts attributed to message toll users increased by 8 percent.[81]

55. We require GTE and Pacific Bell to explain why the share of billed toll messages attributed to interstate calls changed greatly between 1990 and 1996. We seek this information because, at the end of that period, the interstate shares reported by GTE and Pacific Bell were far lower than those reported by any other RBOC. Whereas the other RBOCs attributed on average 46.6 percent of billed toll messages to interstate calls for the calendar year 1996, GTE and Pacific Bell attributed only 8.7 percent and 4.4 percent, respectively, to such calls.[82]

56. Specifically, for the period 1990 through 1992, GTE should explain why its interstate share of billed messages increased from approximately 17 percent to 37 percent.[83] For the year 1995, GTE should explain why the interstate share of billed toll messages declined by 52 percent even though, during the same year, there was an increase in the interstate share of Carrier Billing and Collection Revenues.[84] For the year 1996, GTE should explain why it attributed only 8.7 percent of toll message counts to interstate messages while it allocated 45 percent of Carrier Billing and Collection Revenues to the billing of interstate

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[78] FCC ARMIS Report 43-04 (1996), Rows 7300 and 7310, for Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis, Southwestern Bell, and U S WEST.

[79] FCC ARMIS Report 43-04 (1996), Rows 7220 and 7310, for Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis, Southwestern Bell, and U S WEST.

[80] FCC ARMIS Report 43-04 (1994 and 1995), Row 7241, for U S WEST.

[81] FCC ARMIS Report 43-04, Row 7241 (1994 and 1995), for Ameritech, Bell Atlantic, BellSouth, NYNEX, Southwestern Bell, and Pacific Bell.

[82] FCC ARMIS Report 43-04 (1996), Row 7252, for Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis, Southwestern Bell, and U S WEST.

[83] FCC ARMIS Report 43-04 (1990 and 1992), Row 7252, for GTE Corporation.

[84] FCC ARMIS Report 43-04 (1995), Rows 4031 and 7252, for GTE Corporation.

calls.[85] Similarly, Pacific Bell should explain why its reported interstate share of billed messages declined by approximately 66 percent in 1995 even though, during the same year, there was an increase in the share of Carrier Billing and Collection Revenues attributed to the billing of interstate calls.[86]

57. With regard to those changes in interstate shares, it seems likely that a positive relationship should have existed between the interstate share of billed toll messages and the interstate share of revenues associated with the billing of those messages. Indeed, Pacific Bell acknowledges that its Carrier Billing and Collection Revenue was separated based on the relative number of intrastate and interstate toll messages that it billed its customers on behalf of other carriers.[87] Consequently, it is unclear why this positive relationship is not evident in GTE and Pacific Bell's data submissions. It is also unclear why GTE and Pacific Bell reported decreases (of 52 percent and 66 percent, respectively) in their 1995 interstate shares of billed toll messages that far exceed the corresponding average decrease of 6 percent for other RBOCs.[88] The accuracy of the interstate share of billed toll messages effects the accuracy of exogenous change calculations because that interstate share is used to separate a portion of OB&C Expense, as discussed above. If that interstate share is understated, as the revenues data of GTE and Pacific Bell seem to indicate, the interstate assignment of OB&C Expense would be too small. In that event, the exogenous changes contained in their 1997 Annual Access Tariff filings would be too large. An understatement of the base-period interstate assignment prior to the rule change would exaggerate the effect, on interstate access costs, of raising that assignment to the 33 percent level set by the new rule. We therefore seek this information in order to evaluate the accuracy of GTE and Pacific Bell's separations of OB&C Expense and calculations of exogenous changes.

58. GTE should also explain why it used the 12 months ended June 1996 rather than calendar year 1996, in connection with its 1997 Annual Access Tariff filing, for purposes of calculating the exogenous changes associated with the separations rule change for OB&C Expense.

59. Pacific Bell should also explain why it used 1995 data rather than 1996 data, in connection with its 1997 Annual Access Tariff filing, for purposes of calculating the exogenous changes associated with the separations rule change for OB&C Expense.

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[85] FCC ARMIS Report 43-04 (1996), Rows 4031 and 7252, for GTE Corporation.

[86] FCC ARMIS Report 43-04 (1994-1995), Rows 4031 and 7252, for Pacific Bell.

[87] Letter from Sheryl L. Herauf to William F. Caton, dated July 3, 1997, AAD 97-77, Pacific Bell Petition for Expedited Waiver of Section 36.380 of the Commission's Rules, filed July 2, 1997.

[88] FCC ARMIS Report 43-04 (1994-95), Row 7252, for Ameritech, Bell Atlantic, BellSouth, NYNEX, Southwestern Bell, and U S WEST.

60. We require U S WEST to explain why the share of user counts attributed to message toll users decreased by 14 percent in 1995.[89] This decrease seems unusually large because, during the same period, none of the other RBOCs had a decrease in that share exceeding 5 percent.[90] Because carriers allocate OB&C Expense among Part 36 service categories based on user counts, as noted above, the accuracy of these counts affects the accuracy of the separated interstate cost assignment and, in that way, the accuracy of calculated exogenous adjustments. We also require U S WEST to explain why it is reasonable to make an OB&C exogenous adjustment of $845,145 to recover additional interstate incurred during the two-month period between May 1 and July 1, 1997.

61. Further, U S WEST should provide corrected message toll user counts for 1990. Its reported figures show that message toll users constituted approximately 99 percent of the total number of billed users.[91] That total should consist of a count of the number of customer bills on which a charge appears for message toll, exchange, private line, and directory advertising services.[92] The total user count for a customer bill would be three, for example, if the bill lists charges for three of those services (irrespective of how many charges appear for an individual service). Hence, message toll users could have accounted for 99 percent of the total user count in 1990, as U S West reported, only if charges for exchange, directory advertising, and private line services appeared on no more than 1 percent of customer bills. The 99 percent figure therefore misleadingly implies that there were virtually no users of these other services in 1990. U S WEST should explain whether it used these incorrect counts in calculating its interstate OB&C expenses when initiating price caps.

III. CASH WORKING CAPITAL FOR CERTAIN RATE OF RETURN CARRIERS

62. One of the components of the interstate rate base is an allowance for cash working capital. LECs need this allowance to pay for operating expenses that are incurred prior to the receipt of sales revenues. Generally, cash working capital is computed by determining the revenue lag and the expense lag and multiplying the difference by the carrier's average daily expenses. Revenue lag is the average number of days between the date a service is provided and the date associated revenues are collected. Expense lag is the average number of days between the date a service is provided and the date the expenses associated with the service are paid. The Commission has previously recognized a 15-day net

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[89] FCC ARMIS Report (1994-95), Row 7241, for U S WEST.

[90] FCC ARMIS Report 43-04 (1994-95), Row 7241, for Ameritech, Bell Atlantic, BellSouth, NYNEX, Southwestern Bell, and Pacific Bell.

[91] FCC ARMIS Report (1990), U S WEST, Row 7241.

[92] See 47 C.F.R. §36.380(b). Although this rule also requires TWX service to be counted, carriers discontinued such service prior to the period for which we seek information.

lag period as an acceptable standard for calculating cash working capital for Class B carriers.[93] If the standard 15-day allowance is not used, the carrier must conduct a lead-lag study to determine the net lag period.

63. In the *1997 Annual Access Suspension Order*, we suspended and initiated an investigation of the annual access tariffs of PRTC and a number of Class B carriers.[94] We found that these LECs had not provided sufficient explanation for their cash working capital net lag periods. Specifically, we found that these LECs either (1) had not provided a lead-lag study and calculated a net lag period that appeared to exceed 15 days; or (2) had conducted a lead-lag study and calculated a net lag period significantly above the industry average. In a separate order, we suspended and set for investigation the proposed cash working capital requirements of Roseville Telephone Company.[95] Roseville's proposed cash working capital calculations resulted in a net lag period that exceeded the industry average. In Section IV of the Order, we reconsider, on our own motion, our decision to investigate of most of these Class B carriers. We decline to investigate most of these Class B carriers because they have now provided information that verifies that their net lags are close to 15 days.

2. Information Requirements and Issues Designated for Investigation

64. Although PRTC, Chillicothe, and Concord submitted ex parte filings in support of their lead-lag studies, we find that this material is insufficient to explain their proposed net lag periods. We therefore require PRTC, Chillicothe, Concord, and Roseville to submit the lead-lag study used to determine their proposed net lag periods. To ensure that we have sufficient information to assess the reasonableness of the net lags proposed by these LECs, we require them to provide the information discussed below.

65. In its Petition, PRTC asserts that final resolution of a disputed claim can take up to 90 days and that this lengthy dispute schedule must be considered in the development of

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[93] Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Base and Net Income of Dominant Carriers, CC Docket No. 86-497, Order on Reconsideration, 4 FCC Rcd 1697 (1989).

[94] *See 1997 Annual Access Suspension Order* at ¶ 67. These Class B carriers include: Chillicothe Telephone Company, Concord Telephone Company, Horry Telephone Company, Virgin Island Telephone Company, Rock Hill Telephone Company, Home Telephone Company, Fort Mill Telephone Company, Lancaster Telephone Company, Lufkin-Conroe Telephone Company, and Union Telephone Company. In *Roseville*, we suspended and set for investigation the proposed cash working capital requirements of Roseville Telephone Company. Roseville's proposed cash working capital calculations resulted in a net lag of 49 days.

[95] *See* 1997 Annual Access Tariff Filings, CC Docket No. 97-149, Order, DA 97-1413 (Com. Car. Bur. July 7, 1997).

its cash working capital requirement.[96] Accordingly, we direct PRTC to explain fully the dispute process referenced in its Petition, the number of disputes PRTC handled in the 1994 calendar year,[97] the length of time needed to resolve each dispute in that year, the total amount of revenue associated with all disputes in that year, and the percentage of total revenue that this amount reflected in that year. In addition, we require PRTC to document and explain the 143-day expense lag for payments in lieu of taxes.

66. We require Chillicothe to document and explain the following revenue lags: (1) NECA carrier common line settlements including PPA (195 days); (2) OCC traffic sensitive revenue (161 days); (3) rent receivable (115 days); (4) AOS inmate services (94 days); and (5) operator services (173 days).[98] Finally, we require Concord and Roseville to explain fully any category of revenue with a lag in excess of 45 days and any category of expense with a lag in excess of 30 days.

IV. RECONSIDERATION OF DECISION TO SUSPEND AND INVESTIGATE CERTAIN TARIFF PROVISIONS

A. Growth Factor Calculations

1. Background

67. In the *1997 Annual Access Suspension Order*, the Bureau found that NYNEX, U S West, and Southwestern Bell's proposed tariffs raised significant questions of lawfulness because these LECs failed to provide sufficient explanation of their "g" factor calculations.[99] Based on a preliminary review of the record, the Bureau concluded that NYNEX, U S West, and SWBT's proposed tariffs appeared to include an incorrect "g" factor calculation.

2. Discussion

68. Pursuant to Sections 1.108 and 0.291 of the Commissions rules,[100] we reconsider on our own motion, our decision in the *1997 Annual Access Suspension Order* to suspend and initiate an investigation of the growth factor calculations of NYNEX, U S West, and SWBT. In response to the *1997 Annual Access Suspension Order*, U S West provided

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[96] PRTC Petition at 3-4.

[97] We are requesting that PRTC provide this information for the 1994 calendar year because PRTC's lead-lag study references that year.

[98] Chillicothe Reply at Attachment B.

[99] *1997 Annual Access Suspension Order* at ¶ 42.

[100] 47 C.F.R. §§ 0.291, 1.108.

additional information in an ex parte filing on July 8, 1997.[101] NYNEX and SWBT made ex parte filings on July 9, 1997,[102] and NYNEX make an additional *ex parte* filing on July 15, 1997.[103] We find that the information supplied by these three LECs provide a reasonable explanation of their "g" factor calculations. We, therefore, decline to investigate the "g" factor calculations made by U S West, SWBT, and NYNEX.

69. U S West states that, although growth in nonprimary access lines increased during 1996, the growth in access minutes remained stable because nonprimary access lines are not generally used for toll calling. According to U S West, these lines are generally used for local calls and internet access.[104] We find that U S West's statement reasonably explains its "g" factor calculation and we, therefore, decline to investigate this issue.

70. SWBT explains that the change in its "g" factor was the result of adjustments made for the removal of payphone lines and ISDN lines, and that this adjustment resulted in a decline in minutes of use (MOU) per line growth.[105] We find that SWBT's statement reasonably explains SWBT's "g" factor calculation and we, therefore, decline to investigate this issue.

71. We also find that NYNEX provides a reasonable explanation for its "g" factor calculation. The record indicates that NYNEX's "g" factor declined in 1996 because the New York State Public Service Commission (NYPSC) required NYNEX to change the way it calculates its minutes of use per line. Prior to the NYPSC decision, NYNEX calculated the PIU for calls that lacked jurisdictional information by using an estimate of minutes of use per line provided by its own measured call data. In an order that took effect in March 1996, the NYPSC directed NYNEX accept PIU information provided by IXCs for calls that lacked

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[101] Letter from B. B. Nugent, U S West to William F. Caton, Acting Secretary, FCC, dated July 8, 1997 (*U S West Ex Parte Filing*).

[102] Letter from Mary Liz Hepburn, NYNEX to William F. Caton, Acting Secretary, FCC, dated July 9, 1997 (*NYNEX July 9 Ex Parte Filing*); Letter from Christine Jines, SWBT to William F. Caton, Acting Secretary, FCC, dated July 9, 1997 (*SWBT Ex Parte Filing*).

[103] Letter from Kenneth Rust, NYNEX to William F. Caton, Acting Secretary, FCC, dated July 15, 1997 (*NYNEX July 15 Ex Parte Filing*).

[104] *U S West Ex Parte Filing* at 2.

[105] SWBT Reply at 11-12.

jurisdictional information.[106] We find that this new method of calculating the PIU reasonably accounts for NYNEX's reported decrease in minutes of use in the interstate jurisdiction.[107]

B. Non-Recurring Charges (NRCs)

1. Background

72. The Commission's *NRC Order* defines non-recurring charges (NRCs) as "the one-time expenses incurred, upon the request of a customer in installing, moving, rearranging or terminating an access service for the initial receipt of a service order to the point at which service is provided or terminated."[108] That Order permitted carriers that previously had assessed relatively low NRCs to raise their rates to recover the full costs of the associated non-recurring activities. In the *Suspension Order*, the Bureau found that a number of Class B LECs had failed to provide sufficient explanation for substantial increases to their NRCs for certain rate elements.[109] The Bureau suspended these LECs' proposed NRCs and set them for investigation.

2. Discussion

73. Pursuant to Sections 1.108 and 0.291 of the Commissions rules,[110] we reconsider on our own motion our decision to suspend and investigate the reasonableness of the tariff provisions of LECs that include increases in their NRCs. Following the release of the *1997 Annual Access Tariff Suspension Order*, all carriers that increased their NRCs

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[106] *NYNEX July 9 Ex Parte Filing*, Attachment I at 8-9.

[107] We note that there is identical language in NYNEX's F.C.C. Tariff No. 1, which requires NYNEX to accept PIU data from interexchange carriers when there is insufficient call detail to determine the jurisdiction of the call. *See* NYNEX F.C.C. Tariff No. 1, Section 2.3.10. Page 2-18. *See also NYNEX July 9 Ex Parte Filing*, Attachment I at 8, *citing to,* New York Telephone Company, P.S.C. No. 913, Section 2.3.10, Page 20.2.

[108] Investigation of Interstate Access Tariff Non-Recurring Charges, CC Docket No. 85-166, Phase I, Part 3, Memorandum Opinion and Order, 2 FCC Rcd 3498 (1987) (*NRC Order*).

[109] *See 1997 Annual Access Suspension Order* at ¶ 72. These LECs include: Buffalo Valley Telephone Company, El Paso Telephone Company, Harrisonville Telephone Company, Home (Illinois) Telephone Company, Mt Horeb Telephone Company, Union Telephone Company, and Wabash Telephone Company.

[110] 47 C.F.R. §§ 0.291, 1.108.

revised their tariff filings so that they no longer include these rate increases.[111] Accordingly, we decline to investigate these LECs' NRCs because the issue is now moot.

C. Cash Working Capital

1. Background

74. As discussed above, cash working capital is the amount of investor-supplied funds used to pay operating expenses incurred in the provision of services before revenues are received for such services. A 15-day net lag period has been previously recognized as an acceptable standard for calculating cash working capital for Class B carriers.[112] In the *Suspension Order*, we suspended and initiated an investigation of the annual access tariffs of PRTC and a number of Class B carriers with cash working capital lags periods that appeared to exceed 15 days.[113]

2. Discussion

75. Pursuant to Sections 1.108 and 0.291 of the Commissions rules,[114] we reconsider on our own motion our decision to suspend and investigate tariff provisions that include rate elements associated with cash working capital for the following LECs: Horry Telephone Company, Virgin Island Telephone Company, Rock Hill Telephone Company, Home Telephone Company, Fort Mill Telephone Company, Lancaster Telephone Company, Lufkin-Conroe Telephone Company, and Union Telephone Company. Each of these LECs made *ex parte* filings in which they provided information sufficient to replicate their calculations and verify that their net lag periods are close to 15 days.[115] Accordingly, we decline to investigate these LECs' tariff provisions that relate to cash working capital.

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[111] *See* Mt. Horeb Telephone Company, Transmittal No. 26, filed July 17, 1997; GVNW (on behalf of El Paso, Harrisonville, Home (Illinois), Union, and Wabash), Special Permission No. 97-221; ICORE (on behalf of Buffalo), Special Permission No. 97-216.

[112] Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Base and Net Income of Dominant Carriers, CC Docket No. 86-497, Order on Reconsideration, 4 FCC Rcd 1697 (1989).

[113] *See 1997 Annual Access Suspension Order* at ¶ 67.

[114] 47 C.F.R. §§ 0.291, 1.108.

[115] *See* Letter from Emmanuel Staurulakis, John Staurulakis, Inc. to William F. Caton, Secretary, FCC, dated July 2, 1997 (on behalf of Home, Horry, Lancaster, Rock Hill, Fort Mill); Letter from Gregory Vogt, Wiley, Rein, Fielding to William F. Caton, Secretary, FCC, dated July 2, 1997 (on behalf of Virgin Island); Letter from Benjamin H. Dickens and Raymond Quianzon to William F. Caton, dated July 9 1997 (on behalf of Lufkin-Conroe); and Letter from Judy Trey to Alicia Dunnigan. FCC, dated July 17, 1997 (on behalf of Union Telephone Company).

D. Equal Access Exogenous Adjustment

1. Background

76. In the *1997 Annual Access Tariff Suspension Order*, the Bureau found that the price cap LECs' proposed tariffs raised significant questions of lawfulness because of the potential failure to fully remove all of the amortized equal access expenses from their rates.[116] Sprint, Frontier Communications of Minnesota, and Frontier Communications of Iowa argue that they were not required to make exogenous adjustments because they received waivers of the Commission Order that required LECs to amortize certain equal access expenses.

2. Discussion

77. Pursuant to Sections 1.108 and 0.291 of the Commissions rules,[117] we reconsider on our own motion our decision in the *1997 Annual Access Suspension Order* to suspend and initiate an investigation of the equal access exogenous adjustments for Sprint, Frontier Communications of Minnesota, and Frontier Communications of Iowa. We find that Sprint, Frontier Communications of Minnesota, and Frontier Communications of Iowa are not required to make an exogenous cost decrease to account for the December 31, 1993 completion of the amortization of equal access expenses that the Commission had required to be deferred and amortized over eight years. We make this determination because the Commission previously granted these companies a waiver of any requirement that they amortize these expenses.[118] Accordingly, we decline to investigate the equal access expense issue in relation to Sprint, Frontier of Minnesota, and Frontier of Iowa.

IV. PROCEDURAL MATTERS

A. Filing Schedules

78. This investigation will be conducted as a notice and comment proceeding. We have designated CC Docket No. 97-149. The following companies are the parties designated

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[116] *1997 Annual Access Suspension Order* at ¶ 36.

[117] 47 C.F.R. §§ 0.291, 1.108.

[118] Sprint's predecessor companies, United Telephone System Companies and Centel Companies, were granted waivers on August 18, 1987. *See* United Telephone System Companies Petition for Waiver of the Commission's Rules and Regulations Regarding the Eight Year Amortization Period for Equal Access Expenses, Memorandum Opinion and Order, 2 FCC Rcd 5104 (rel. Com. Car. Bur., Aug. 18, 1987); Centel Companies Petition for Waiver of the Commission's Rules and Regulations Regarding the Eight Year Amortization Period for Equal Access Expenses, Memorandum Opinion and Order, 2 FCC Rcd 1486 (rel. Com. Car. Bur., Mar. 9, 1987). Centel was also the predecessor of Frontier Communications of Minnesota, Inc. and Frontier Communications of Iowa, Inc.

to this investigation: Ameritech Operating Company, Bell Atlantic Telephone Companies, BellSouth Telecommunications, Inc., Frontier Communications of Minnesota and Frontier Communications of Iowa, GTE System Telephone Companies, GTE Telephone Operating Company, Aliant Comm. Co., Nevada Bell, New York Telephone and New England Telephone and Telegraph Company, (collectively NYNEX), Pacific Bell, Rochester Telephone Corporation, Southern New England Telephone Company, Southwestern Bell Telephone Company, Sprint Local Telephone Companies, U S West Communications, The Puerto Rico Telephone Company, Chillicothe Telephone Company, Concord Telephone Company, and Roseville Telephone Company.

79. These parties shall file their direct cases no later than 30 days from the date this order is filed. The direct cases must present the parties' positions with respect to the issues described in this Order. Pleadings responding to the direct cases may be filed no later than 15 days after LECs file their direct cases, and must be captioned "Oppositions to Direct Case" or "Comments on Direct Case." The parties may each file a "Rebuttal" to oppositions or comments no later than seven days after the date the oppositions and comments are filed.

80. An original and six copies of all pleadings shall be filed with the Secretary of the Commission. In addition, parties shall file two copies of any such pleadings with the Competitive Pricing Division, Common Carrier Bureau, Room 518, 1919 M Street, N.W., Washington, D.C. 20554. Parties shall also deliver one copy of such pleadings to the Commission's commercial copying firm, International Transcription Service, Inc., 1231 20th Street, NW, Washington, DC 20036. Members of the general public who wish to express their views in an informal manner regarding the issues in this investigation may do so by submitting one copy of their comments to the Office of the Secretary, Federal Communications Commission, 1919 M Street, N.W., Room 222, Washington, D.C. 20554. Such comments should specify the docket number of this investigation.

81. All relevant and timely pleadings will be considered by the Commission. In reaching a decision, the Commission may take into account information and ideas not contained in pleadings, provided that such information or a writing containing the nature and source of such information is placed in the public file, and provided that the fact of reliance on such information is noted in the order.

B. *Ex Parte* Requirements

82. This proceeding is deemed non-restricted under section 1.1206 of the Commission's rules.[119] *Ex parte* contacts (*i.e.*, written or oral communications that address the procedural or substantive merits of the proceeding which are directed to any member, officer, or employee of the Commission who may reasonably be expected to be involved in the decisional process in this proceeding) are permitted in this proceeding until the

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[119] 47 C.F.R. § 1.1206.

commencement of the Sunshine Agenda period. The Sunshine Agenda period terminates when a final order is released and the final Order is issued. Written *ex parte* contacts and memoranda summarizing oral *ex parte* contacts must be filed on the day of the presentation with the Secretary and Commission employees receiving each presentation. For other requirements, *see generally* Section 1.1200 *et seq.* of the Commission's Rules, 47 C.F.R. §§ 1.1200 *et. seq.*

83. The information established in this Designation Order has been analyzed with respect to the provisions of the Paperwork Reduction Act of 1980, as amended by the Paperwork Reduction Act of 1995,[120] and found to impose no new or modified form, or information collection requirements on the public. Implementation of any new or modified requirements will be subject to approval by the Office of Management and Budget as prescribed by the Act.

V. ORDERING CLAUSES

84. **IT IS ORDERED** that, pursuant to Sections 4(i), 4(j), 201(b), 203(c), 204(a), 205, and 403 of the Communications Act, 47 U.S.C. §§ 154(i), 154(j), 201(b), 203(c), 204(a), 205, and 403, and Sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, the issues set forth in this Order **ARE DESIGNATED FOR INVESTIGATION**.

85. **IT IS FURTHER ORDERED** that the local exchange carriers listed in Appendix A of this Order **SHALL BE** parties to this proceeding.

86. **IT IS FURTHER ORDERED** that each local exchange carrier that is a party to this proceeding **SHALL INCLUDE**, in its direct case, a response to each request for information that it is required to answer in this Order.

87. **IT IS FURTHER ORDERED** that pursuant to Sections 0.291 and 1.108 of the Commission's rules, 47 C.F.R. §§ 0.291, 1.108, we reconsider on our own motion our decision in the *1997 Annual Access Tariff Suspension Orde*r to suspend and investigate tariff provisions that include rate elements associated with cash working capital for Horry Telephone Company, Virgin Island Telephone Company, Rock Hill Telephone Company, Home Telephone Company, Fort Mill Telephone Company, Lancaster Telephone Company, Lufkin-Conroe Telephone Company, and Union Telephone Company and, for the reasons stated herein, we decline to investigate these LECs' tariff provisions that relate to cash working capital.

88. **IT IS FURTHER ORDERED** that pursuant to Sections 0.291 and 1.108 of the Commission's rules, 47 C.F.R. §§ 0.291, 1.108, we reconsider on our own motion our decision in the *1997 Annual Access Tariff Suspension Orde*r to suspend and investigate tariff

[120] 44 U.S.C. §§ 3501-3520.

provisions of LECs that include increases in their nonrecurring charges and, for the reasons stated herein, we decline to investigate these LECs' nonrecurring charges.

89. **IT IS FURTHER ORDERED** that pursuant to Sections 0.291 and 1.108 of the Commission's rules, 47 C.F.R. §§ 0.291, 1.108, we reconsider on our own motion our decision in the *1997 Annual Access Tariff Suspension Order* to suspend and investigate the growth factor calculations of NYNEX, U S West, and SWBT and, for the reasons specified herein, we decline to investigate the growth factor calculations made by these LECs.

90. **IT IS FURTHER ORDERED** that pursuant to Sections 0.291 and 1.108 of the Commission's rules, 47 C.F.R. §§ 0.291, 1.108, we reconsider on our own motion our decision in the *1997 Annual Access Tariff Suspension Order* to suspend and investigate the equal access exogenous cost expenses in relation to Sprint Local Telephone Companies, Frontier Communications of Minnesota, and Frontier Communications of Iowa.

FEDERAL COMMUNICATIONS COMMISSION

A. Richard Metzger

A. Richard Metzger, Jr., Deputy Chief
Common Carrier Bureau

APPENDIX A

LOCAL EXCHANGE CARRIER SUBJECT TO THIS INVESTIGATION

Ameritech Operating Company
Bell Atlantic Telephone Companies
BellSouth Telecommunications, Inc.
Frontier Communications of Minnesota
Frontier Communications of Iowa
GTE System Telephone Companies
GTE Telephone Operating Company
Aliant Comm. Co.
Nevada Bell
New York Telephone and New England Telephone and Telegraph Company
Pacific Bell
Rochester Telephone Corporation
Southern New England Telephone Company
Southwestern Bell Telephone Company
Sprint Local Telephone Companies
U S West Communications
The Puerto Rico Telephone Company
Chillicothe Telephone Company
Concord Telephone Company
Roseville Telephone Company

APPENDIX B

Calculation of BFP Revenue Requirement and Adjustments

Introduction

In this appendix, we provide instructions to the price cap LECs subject to this investigation for calculating their actual BFP revenue requirements, and for adjusting data for changes in Commission rules as required by the *Designation Order*. Our instructions for calculating actual BFP revenue requirements are based on the methodology used by Bell Atlantic in its 1997-98 Annual Access Tariff filing. Price cap LECs are required to follow the instructions set forth below, but are free to file additional calculations using alternative methodologies if they desire. If a LEC files additional BFP revenue requirements using an alternative calculation, it must include a thorough explanation of why its calculation produces a more accurate result than our approach.

BFP Revenue Requirement

To develop historical trends of LEC BFP revenue requirements, we require LECs to follow Bell Atlantic's method of calculating actual BFP revenue requirements using ARMIS 43-01 data, columns k and m.[1] We require actual BFP revenue requirements to be calculated in the following manner:[2]

BFP Revenue Requirement = Total Operating Expenses (1190) + Total Other Taxes (1490) + Net Federal Income Taxes + [(Average Net Investment (1910)) * (0.1125)] + Uncollectible Revenues (1060) - Miscellaneous Revenues (1040) - Other Operating Income/Loss (1290) + Total Non-Operating Items (1390).

Net Federal Income Taxes are calculated as follows:

FIT = [{(Average Net Investment (1910) * 0.1125) - Fixed Charges (1510) + IRS Income Adjustments (1520) + FCC Taxable Income Adjustments (1530) - ITC Amortization (1540) - FCC ITC Adjustment (1550)} * (.35/.65)] - ITC Amortization (1540) - FCC ITC Adjustment (1550).

The line number from ARMIS Report 43-01 is listed in parentheses.

ARMIS 43-01 (column k), does not report values for Total Other Taxes (1490), Uncollectible Revenues (1060), and Miscellaneous Revenues (1040). In order to include values for these

[1] In making its projections, Bell Atlantic adjusts its projections for deferred taxes and investment tax credits. We simply calculate BFP revenue requirements and do not adjust for these changes. According to Bell Atlantic's calculations, these effects are relatively small in magnitude.

[2] Those price cap LECs that have not filed data with ARMIS over the entire 1991-1996 period shall use company data to fulfill this request for years in which they were not included in the ARMIS report.

categories in BFP revenue requirement calculations, we require price cap LECs to calculate the ratio of Total Operating Expenses (1190) from column k (BFP) to Total Operating Expenses (1190) from column m (common line). LECs shall then multiply Total Other Taxes (1490), Uncollectible Revenues (1060), and Miscellaneous Revenues (1040) from column m by this ratio to estimate these values for their BFP revenue requirement calculations.

To calculate return on investment, we require LECs to calculate average annual net investment by taking the average of each year's quarterly data on average net investment. For 1996, where ARMIS reports only annual data, LECs shall use the year-end number reported in ARMIS.

Adjustments to BFP Revenue Requirements

In the Designation Order we require price cap LECs subject to this investigation to develop a series of BFP revenue requirements for calendar years 1991-1996 that is consistent with Commission rules in effect on December 30, 1996. Below, we provide instructions for calculating adjustments for changes in our payphone rules, allocation of general support facilities (GSF), and to the subscriber plant factor (SPF) to BFP revenue requirements. To facilitate our investigation of BFP, we require all carriers to file calculations that use the methodologies described below.

Payphone Adjustment

The *Payphone Order* required that all costs associated with public payphone lines be added to BFP. Prior to the *Payphone Order*, the cost of payphone lines were excluded from BFP. Thus, BFP revenue requirement projections must be adjusted upward to account for the inclusion of payphone loops. Each LEC subject to this investigation shall calculate the impact the *Payphone Order* would have had on its BFP revenue requirement in calendar 1996, and shall report two BFP revenue requirements for 1996 -- one where payphone lines are included in BFP, and another excluding payphone lines. Each LEC shall then adjust its projection for tariff year 1997-98 upward by multiplying its projection, absent payphone lines, by the ratio of calendar year 1996's BFP revenue requirement with payphones to the BFP revenue requirement excluding payphones.[3] If a LEC used data from 1995 in its filing in response to the Payhone Order to calculate the impact changes in our payphone rules had on BFP, these carriers should refile those calculations in response to this investigation. Additionally, LECs are required to show explicitly how their most recent multi-line business and single-line business end-user demand projections are affected by the *Payphone Order*.

GSF Adjustment

Effective July 1, 1993, we required LECs to reallocate costs associated with General Support Facilities. This change in our rules increased costs allocated to BFP, and thus increased BFP

[3] As discussed in the *Designation Order*, LECs shall only adjust their tariff year 1997/1998 projections for the change in our rules addressing payphones.

revenue requirements. To compare BFP revenue requirements using accounting data prior to the change in GSF allocations with those including this change, we require LECs to adjust their accounting data for calendar years 1991, 1992, and the first half of 1993 for changes in the allocation of GSF. We, therefore, require LECs to submit two BFP revenue requirement calculations for calendar year 1993. The first should include the GSF adjustment for the entire calendar year, and the second shall exclude the GSF adjustment. Because the changes became effective on July 1, 1993, we require LECs to add one-half of the GSF adjustment for calendar year 1993 to its unadjusted 1993 BFP revenue requirement. For 1991 and 1992, the LECs shall multiply the ratio of 1993's GSF adjusted BFP revenue requirement to the unadjusted BFP revenue requirement of 1992 (1991) by 1992's (1991's) BFP revenue requirement.

Subscriber Plant Factor (SPF) Adjustments

Section 36.154 of our rules apportions the cost of exchange line cable and wire facilities among state and interstate jurisdictions. Section 36.154 (c) requires all carriers to allocate 25 percent of the costs assigned to subscriber or common lines that are jointly used for local exchange service and exchange access for the state and interstate interexchange services shall be assigned to the interstate jurisdiction. Section 36.154 (d)-(f) prescribes a phase-in to this allocation. Thus, several LECs may have been allocating more or less than 25 percent of their exchange line cable and wire facilities to the interstate jurisdiction during some portion of our BFP study. As in the case of GSF, we must ensure that each BFP revenue requirement in an adjusted series uses allocates cost in the same way for each period in the entire series. We therefore require LECs to calculate their actual interstate BFP revenue requirements for the years 1991-1996 using the 25 percent allocator.